

(iii) Except as otherwise set forth in this Section 3.2(b), as of the date of this Agreement, there are no securities, options, warrants, calls, rights, commitments, agreements, arrangements or undertakings of any kind to which BT or any of its Subsidiaries is a party or by which any of them is bound obligating BT or any of its Subsidiaries to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares or other voting securities of BT or any of its Subsidiaries or obligating BT or any of its Subsidiaries to issue, grant, extend or enter into any such security, option, warrant, call, right, commitment, agreement, arrangement or undertaking. As of the date of this Agreement, there are no outstanding obligations of BT or any of its Subsidiaries to repurchase, redeem or otherwise acquire any shares of BT or any of its Subsidiaries, except such obligations of BT with respect to shares of its wholly owned Subsidiaries or of wholly owned Subsidiaries of BT with respect to shares of other wholly owned Subsidiaries of BT.

(c) Authority: No Conflicts.

(i) BT has all requisite corporate power and authority to enter into this Agreement and, subject to approval of the Merger by the Required BT Vote, to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of BT, subject to the approval by the shareholders of BT of the Merger and this Agreement and the matters referred to in Section 5.16 and the creation and issue of a sufficient amount of authorized ordinary share capital of BT, the granting of authority pursuant to Section 80 Companies Act and the issuance upon conversion of MCI Common Stock, of BT ADSs, appropriate alterations to the Articles of Association of BT and the change of name referred to in Section 5.17. This Agreement has been duly executed and delivered by BT and constitutes a valid and binding agreement of BT, enforceable against it in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors generally, by general equity principles (regardless of whether such enforceability is considered in a proceeding in equity or at law) or by an implied covenant of good faith and fair dealing.

(ii) The execution and delivery of this Agreement does not or will not, as the case may be, and the consummation of the transactions contemplated hereby will not, result in any Violation of: (A) any provision of the memorandum or articles of association of BT or comparable charter or organizational documents of any Subsidiary of BT or (B) except as would not have a Material Adverse Effect on BT and subject to obtaining or making the consents, approvals, orders, authorizations, registrations, declarations and

filings referred to in paragraph (iii) below, any loan or credit agreement, note, mortgage, bond, indenture, lease, benefit plan or other agreement, obligation, instrument, permit, concession, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to BT or any Subsidiary of BT or their respective properties or assets.

(iii) No consent, approval, order or authorization of, or registration, declaration or filing with, any Governmental Entity is required by or with respect to BT or any Subsidiary of BT in connection with the execution and delivery of this Agreement by BT or the consummation by BT of the transactions contemplated hereby, except for (A) the Required Consents, (B) the appropriate applications, filings and notices to, and approval of, the LSE and the NYSE, (C) those required under the Companies Act and the FSA, (D) the consent of H.M. Treasury pursuant to Section 765(1)(c) of the Income and Corporation Taxes Act 1988 and (E) such consents, approvals, orders, authorizations, registrations, declarations and filings the failure of which to make or obtain would not have a Material Adverse Effect on BT.

(d) Reports and Financial Statements.

(i) BT has filed all required reports, schedules, forms, statements and other documents required to be filed by it with the SEC since April 1, 1995 (collectively, including all exhibits thereto, the "BT SEC Reports"). No Subsidiary of BT is required to file any form, report or other document with the SEC. None of the BT SEC Reports, as of their respective dates (and, if amended or superseded by a filing prior to the date of this Agreement or of the Closing Date, then on the date of such filing), contained or will contain any untrue statement of a material fact or omitted or will omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. Each of the financial statements (including the related notes) included in the BT SEC Reports presents fairly, in all material respects, the consolidated financial position and consolidated results of operations and cash flows of BT and its Subsidiaries as of the respective dates or for the respective periods set forth therein, all in conformity with accounting principles and practices generally accepted in the United Kingdom ("UK GAAP") consistently applied during the periods involved, except as otherwise noted therein. The financial information contained in the unaudited interim financial statements for the three months ended June 30, 1996 has been prepared with all due care and attention and in accordance with UK GAAP (on a basis consistent with the financial statements included in the BT SEC Reports) insofar as appropriate in the preparation of an unaudited interim statement and all statements of fact contained in such statement relating to BT and its Subsidiaries are, in the context of such statement, true and accurate in all material respects and not

misleading in any material respect and all expressions of opinion, intention and expectation contained therein are fair and honestly held and have been made after due and careful enquiry and consideration. All of the BT SEC Reports, as of their respective dates (and as of the date of any amendment to the respective BT SEC Report), complied as to form in all material respects with the applicable requirements of the Securities Act and the Exchange Act and the rules and regulations promulgated thereunder.

(ii) Except as set forth in the BT SEC Reports filed prior to the date of this Agreement, and except for liabilities and obligations incurred in the ordinary course of business consistent with past practice since March 31, 1996, neither BT nor any of its Subsidiaries has any liabilities or obligations of any nature (whether accrued, absolute, contingent or otherwise) which, individually or in the aggregate, would have a Material Adverse Effect on BT or would prevent or materially delay the performance of this Agreement by BT.

(e) Information Supplied.

(i) None of the information supplied or to be supplied by BT for inclusion or incorporation by reference in (A) the Form F-4 will, at the time the Form F-4 is filed with the SEC, at any time it is amended or supplemented or at the time it becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading and (B) the Proxy Statement/Prospectus and, if applicable, the Schedule 13E-3 will, at the date it is first mailed to MCI stockholders or at the time of the MCI Stockholders Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The BT Disclosure Document and any supplements thereto and any other circulars or documents issued to shareholders, employees or debentureholders of BT will contain all particulars relating to BT and MCI required to comply in all material respects with all United Kingdom statutory and other legal provisions (including, without limitation, the Companies Act, the FSA and the rules and regulations made thereunder and the rules and requirements of the LSE) and all such information contained in such documents will be substantially in accordance with the facts and will not omit anything material likely to affect the import of such information. The Form F-4 and the Proxy Statement/Prospectus will comply as to form in all material respects with the requirements of the Exchange Act and the Securities Act and the rules and regulations of the SEC thereunder.

(ii) The information supplied or to be supplied by BT for inclusion in the BT Disclosure Document will, on the date the BT Disclosure Document is first mailed to shareholders of BT, and at the time of the BT Shareholder Meeting, comply with the provisions of section 146 of the FSA.

(iii) Notwithstanding the foregoing provisions of this Section 3.2(e), no representation or warranty is made by BT with respect to statements made or incorporated by reference in the Form F-4, the Proxy Statement/Prospectus, the Schedule 13E-3 (if applicable) or the BT Disclosure Document based on information supplied by MCI for inclusion or incorporation by reference therein.

(f) Compliance with Applicable Laws: Regulatory Matters. BT and its Subsidiaries hold all permits, licenses, certificates, franchises, registrations, variances, exemptions, orders and approvals of all Governmental Entities which are material to the operation of the businesses of BT and its Subsidiaries, taken as a whole (the "BT Permits"). BT and its Subsidiaries are in compliance with the terms of the BT Permits, except where the failure so to comply, individually or in the aggregate, would not have a Material Adverse Effect on BT. Except as disclosed in the BT SEC Reports filed prior to the date of this Agreement, the businesses of BT and its Subsidiaries are not being and have not been conducted in violation of any law, ordinance, regulation, judgment, decree, injunction, rule or order of any Governmental Entity, except for violations which, individually or in the aggregate, would not have a Material Adverse Effect on BT. As of the date of this Agreement, no investigation (other than with respect to Taxes) by any Governmental Entity with respect to BT or any of its Subsidiaries is pending or, to the best knowledge of BT, threatened, other than investigations which, individually or in the aggregate, would not have a Material Adverse Effect on BT. Since December 31, 1994, BT and each of its Subsidiaries required to make filings under all applicable laws regulating the telephone, mobile cellular, paging or other telecommunications business has filed with all applicable Governmental Entities all material forms, statements, reports and documents (including exhibits, annexes and any amendments thereto) required to be filed by them, and each such filing complied with all applicable laws, rules and regulations, except for such noncompliance which would not, individually or in the aggregate, have a Material Adverse Effect on BT or prevent or materially delay the performance of this Agreement by BT.

(g) Litigation. Except as disclosed in the BT SEC Reports filed prior to the date of this Agreement, there is no litigation, arbitration, claim, suit, action, investigation or proceeding pending or, to the knowledge of BT, threatened, against or affecting BT or any Subsidiary of BT which, individually or in the aggregate, has had or would have a Material Adverse Effect on BT, nor is there any judgment, award, decree, injunction, rule or order of any Governmental Entity or arbitrator

outstanding against BT or any Subsidiary of BT which, individually or in the aggregate, has had or would have a Material Adverse Effect on BT.

(h) Taxes. (i) BT and each of its Subsidiaries have prepared in good faith and duly and timely filed (taking into account any extension of time within which to file) all material Tax Returns required to be filed by any of them and all such filed Tax Returns are complete and accurate in all material respects; (ii) BT and each of its Subsidiaries have paid all Taxes that are shown as due on such filed Tax Returns or that BT or any of its Subsidiaries is obligated to withhold from amounts owing to any employee, creditor or third party, except with respect to matters contested in good faith or for such amounts that, individually or in the aggregate, would not have a Material Adverse Effect on BT; (iii) as of the date of this Agreement, there are no pending or, to the best knowledge of BT, threatened in writing material audits, examinations, investigations or other proceedings in respect of Taxes or Tax matters relating to BT or any of its Subsidiaries; (iv) there are not, to the best knowledge of BT, any unresolved questions or claims concerning its or any of its Subsidiaries' Tax liability that would, individually or in the aggregate, have a Material Adverse Effect on BT and there are no deficiencies or claims for any Taxes that have been proposed, asserted or assessed against BT or any of its Subsidiaries which, if such deficiencies or claims were finally resolved against BT or any of its Subsidiaries, would, individually or in the aggregate, have a Material Adverse Effect on BT; (v) neither BT nor any of its Subsidiaries has any liability with respect to Taxes in excess of the amounts accrued in respect thereof that are reflected in the financial statements included in the BT SEC Reports, except such excess liabilities as would not, individually or in the aggregate, have a Material Adverse Effect on BT; and (vi) there are no material Liens for Taxes upon the assets of BT or any of its Subsidiaries, other than Liens for current Taxes not yet due and payable and Liens for Taxes that are being contested in good faith by appropriate proceedings.

(i) Subsidiaries and Equity Interests. Note 31 of the Consolidated Financial Statements of BT filed as part of BT's Annual Report on Form 20-F for the fiscal year ended March 31, 1996 includes all the Subsidiaries of BT as of the date of this Agreement required to be included on such exhibit by the rules and regulations of the SEC, were it to be filed on the date of this Agreement. Unless otherwise described therein, BT owns, directly or indirectly, beneficially and of record 100% of the issued and outstanding voting securities of each such Subsidiary (other than directors' qualifying shares, if any). Section 3.2(i) of the BT Disclosure Schedule lists each corporation, partnership, limited liability company or similar entity with respect to which, as of the date of this Agreement, BT or any Subsidiary of BT owns more than 5% but less than a majority of the voting equity or similar voting interest or any interest convertible into, or exchangeable or exercisable for, more than 5% but less than a majority of the voting equity or similar voting interest and which interest is carried on BT's most recent financial statements (or if not held as of the date thereof, would be carried on BT's financial statements if prepared as of the date

hereof) at a value in excess of £10,000,000 (collectively, the "BT Equity Interests"). There are no plans to restructure in any material respect any of the BT Equity Interests. All of the shares of capital stock of each of the Subsidiaries and all of the BT Equity Interests held by BT and each Subsidiary of BT are fully paid and nonassessable (with respect to jurisdictions that recognize the concept of nonassessability) and are owned by BT or such Subsidiary free and clear of any Lien. There are no outstanding contractual obligations of BT or any of its Subsidiaries to provide funds to, or make any investment (in the form of a loan, capital contribution or otherwise) in, any Subsidiary of BT (other than wholly owned Subsidiaries of BT), any entity in which BT or any Subsidiary of BT owns a BT Equity Interest, or any other Person, except such obligations as would not require any investment or provision of funds or assets in an amount or having a fair market value in excess of £10,000,000 for any such investment or £50,000,000 in the aggregate for all such investments.

(j) Absence of Certain Changes or Events.

(i) Except as disclosed in the BT SEC Reports filed and publicly available prior to the date of this Agreement or disclosed in LSE announcements prior to the date of this Agreement: (A) since March 31, 1996, BT and its Subsidiaries have conducted their respective businesses in the ordinary course consistent with their past practices and have not incurred any material liability, except in the ordinary course of their respective businesses consistent with their past practices; (B) since March 31, 1996 to the date of this Agreement, there has not been any change in or effect on, or any event or circumstance involving a prospective change in or effect on, the business, financial condition or results of operations of BT or any of its Subsidiaries, that has had, or would have, a Material Adverse Effect on BT; and (C) since March 31, 1996, there has not been any change in or effect on, or any event or circumstance involving a prospective change in or effect on, the business, financial condition or results of operations of BT or any of its Subsidiaries that has had, or is reasonably likely to have, a material adverse effect on the business, operations, assets, liabilities (including, without limitation, contingent liabilities), financial condition or results of operations of BT and its Subsidiaries, taken as a whole, other than as a result of (1) changes after the date of this Agreement in general economic conditions or the securities markets, and (2) legal or regulatory changes effective after the date of this Agreement affecting the telecommunications industry generally.

(ii) As of the date of this Agreement, no plans or proposals are under consideration by BT to announce or implement any restructuring or other similar actions by BT or any of its Subsidiaries which would be reasonably likely to result in material charges or write-offs to the consolidated

financial statements of BT or material reductions in the anticipated consolidated revenues or operating income of BT.

(k) Vote Required. The affirmative vote of not less than three-fourths of such members of BT as (being entitled to do so) vote at the BT Shareholder Meeting (the "Required BT Vote") is the only vote or approval of the holders of any class of BT shares necessary to approve this Agreement and the transactions contemplated hereby.

(l) Certain Agreements.

(i) All contracts listed or which would be required to be listed as an exhibit to BT's most recent Annual Report on Form 20-F under the rules and regulations of the SEC relating to the business of BT and its Subsidiaries and any contracts that would be required to be so listed but for the exception with respect to listing contracts made in the ordinary course of business (the "BT Material Contracts") are valid and in full force and effect except to the extent they have previously expired in accordance with their terms, and neither BT nor any of its Subsidiaries has violated any provision of, or committed or failed to perform any act which, with or without notice, lapse of time, or both, would constitute a default under the provisions of, any BT Material Contract, except for defaults which, individually or in the aggregate, would not have a Material Adverse Effect on BT. To the best knowledge of BT, no counterparty to any such BT Material Contract has violated any provision of, or committed or failed to perform any act which, with or without notice, lapse of time, or both, would constitute a default or other breach under the provisions of, such BT Material Contract, except for defaults or breaches which, individually or in the aggregate, would not have a Material Adverse Effect on BT.

(ii) Except for existing agreements between MCI and BT, as of the date of this Agreement neither BT nor any of its Subsidiaries nor any of their respective affiliates has entered into any agreement or arrangement limiting or otherwise restricting BT or any of its Subsidiaries or any of their respective affiliates or successors from engaging or competing in any line of business or in any geographic area.

(m) Employee Benefit Plans; Labor Matters.

(i) Trade Disputes. Neither BT nor any of its Subsidiaries is involved in, and, to the knowledge of BT, there are no circumstances likely to give rise to, any industrial or trade dispute or any dispute or negotiation regarding a claim of material importance with any trade union or other body which has had or would have a Material Adverse Effect on BT.

(ii) Pensions. BT has made available to MCI copies, as of the date of this Agreement, of: (A) the current trust deeds and rules of each of the material schemes to which BT and its Subsidiaries make or could become liable to make payments for providing retirement, death, disability or life assurance benefits (the "BT Schemes") (including any draft amendments); (B) the most recently prepared explanatory booklets and announcements relating to each of the BT Schemes; and (C) a copy of the actuary's report on the latest actuarial valuation of the BT Schemes, if applicable. With respect to the BT Schemes, no event has occurred and, to the knowledge of BT, there exists no condition or set of circumstances, in connection with which BT or any of its Subsidiaries could be subject to any liability under the terms of such BT Schemes, the Pension Schemes Act of 1993 or any other applicable law which, individually or in the aggregate, would have a Material Adverse Effect on BT.

(n) Brokers or Finders. No agent, broker, investment banker, financial advisor or other firm or Person is or will be entitled to any broker's or finder's fee or any other similar commission or fee in connection with any of the transactions contemplated by this Agreement, except N M Rothschild & Sons Limited, Rothschild Inc., Morgan Stanley & Co. Limited and Cazenove & Co., whose fees and expenses will be paid by BT in accordance with BT's agreements with such firms, based upon arrangements made by or on behalf of BT.

(o) Ownership of MCI Common Stock. As of the date of this Agreement, except as contemplated by that certain Amended and Restated Investment Agreement dated as of January 31, 1994 (the "Investment Agreement") between BT and MCI, neither BT nor, to the best of its knowledge, any of its affiliates or associates (as such terms are defined under the Exchange Act) (i) beneficially owns, directly or indirectly or (ii) is party to any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of, in case of either clause (i) or (ii), shares of capital stock of MCI.

(p) Intellectual Property Rights.

(i) Neither BT nor any of its Subsidiaries (a) has licensed Intellectual Property Rights owned by them (or licensed to them by a third party) to any Person in a manner that would have a Material Adverse Effect on BT; or (b) is in breach of any agreements related to licenses from BT or its Subsidiaries of Intellectual Property Rights owned by them (or licensed to them by a third party) which breach would have a Material Adverse Effect on BT, and the transactions contemplated by this Agreement will not constitute such a breach or otherwise reduce or impair, in any material respect, the rights of BT and its Subsidiaries under such license agreements.

(ii) The terms of licenses of Intellectual Property Rights by third parties to BT and its Subsidiaries are sufficient to allow BT and its Subsidiaries to conduct, and to continue to conduct, their businesses in all material respects as currently conducted. Neither BT nor any of its Subsidiaries is in breach of any of the agreements relating to such licenses which breach would have a Material Adverse Effect on BT, and the transactions contemplated by this Agreement will not constitute such a breach or otherwise impair, in any material respect, the rights of BT and its Subsidiaries under such license agreements. For purposes of this clause (ii), joint ownership of Intellectual Property Rights between BT and its Subsidiaries, on the one hand, and any other Person, on the other hand, shall be deemed to be a license from such Person to BT and its Subsidiaries.

(iii) Neither BT nor any of its Subsidiaries has received any written notice from any Person regarding any actual or potential infringements by BT or any of its Subsidiaries of any Intellectual Property Rights of any other Person which infringements, individually or in the aggregate, would if proven have a Material Adverse Effect on BT. For purposes of this paragraph (iii), a challenge by a Person to the ownership of Intellectual Property Rights of BT and its Subsidiaries shall be deemed to be an allegation by the Person so challenging of actual or potential infringement by BT and its Subsidiaries.

(iv) No claims are pending or, to the best knowledge of BT, threatened by any Person with respect to the ownership, validity or enforceability of any Intellectual Property Rights or challenging or questioning the right of BT or any of its Subsidiaries to use any Intellectual Property Rights, except as would not, individually or in the aggregate, have a Material Adverse Effect on BT.

(v) Neither BT nor any of its Subsidiaries has, as of the date of this Agreement, any outstanding claim against it of an infringement, the loss of which would have a Material Adverse Effect on BT; and neither BT nor any of its Subsidiaries has made any still outstanding claim against a Person of a violation or infringement, the loss of which would have a Material Adverse Effect on BT.

(vi) The ownership of Intellectual Property Rights and the right to secure such rights (including the right to apply for patents) currently enjoyed by BT and its Subsidiaries will not be affected by the transactions contemplated by this Agreement in any manner that would have a Material Adverse Effect on BT.

3.3. Representations and Warranties of BT and Merger Sub. BT and Merger Sub represent and warrant to MCI as follows:

(a) Organization and Corporate Power. Merger Sub is a corporation duly incorporated, validly existing and in good standing under the laws of Delaware.

(b) Corporate Authorization. Merger Sub has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance by Merger Sub of this Agreement and the consummation by Merger Sub of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Merger Sub. This Agreement has been duly executed and delivered by Merger Sub and constitutes a valid and binding agreement of Merger Sub, enforceable against it in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors generally, by general equity principles (regardless of whether such enforceability is considered in a proceeding in equity or at law) or by an implied covenant of good faith and fair dealing.

(c) Non-Contravention. The execution, delivery and performance by Merger Sub of this Agreement and the consummation by Merger Sub of the transactions contemplated hereby do not and will not contravene or conflict with the certificate of incorporation or by-laws of Merger Sub.

(d) No Business Activities. Merger Sub has not conducted any activities other than in connection with the organization of Merger Sub, the negotiation and execution of this Agreement and the consummation of the transactions contemplated hereby. Merger Sub has no Subsidiaries.

ARTICLE IV

COVENANTS RELATING TO CONDUCT OF BUSINESS

4.1. Covenants of MCI. During the period from the date of this Agreement and continuing until the Effective Time, MCI agrees as to itself and its Subsidiaries that (except as expressly contemplated or permitted by this Agreement or as otherwise indicated on the MCI Disclosure Schedule or to the extent that BT shall otherwise consent in writing):

(a) Ordinary Course.

(i) MCI and its Subsidiaries shall carry on their respective businesses in the usual, regular and ordinary course in all material respects, in substantially the same manner as heretofore conducted, and shall use all reasonable efforts to preserve intact their present lines of business, maintain their rights and franchises and preserve their relationships with customers,

suppliers and others having business dealings with them to the end that their ongoing businesses shall not be impaired in any material respect at the Effective Time; provided, however, that no action by MCI or its Subsidiaries with respect to matters specifically addressed by any other provision of this Section 4.1 shall be deemed a breach of this Section 4.1(a)(i) unless such action would constitute a breach of one or more of such other provisions.

(ii) MCI shall not, and shall not permit any of its Subsidiaries to, (A) enter into any new material line of business or (B) incur or commit to any capital expenditures other than capital expenditures incurred or committed to in the ordinary course of business consistent with past practice and which, together with all such expenditures incurred or committed to during any fiscal year, are not in excess of 115% of the aggregate amounts set forth in Section 4.1(a) of the MCI Disclosure Schedule.

(b) Dividends; Changes in Share Capital. MCI shall not, and shall not permit any of its Subsidiaries to, and shall not propose to, (i) declare or pay any dividends on or make other distributions in respect of any of its capital stock, except (A) MCI may continue the declaration and payment of regular semiannual cash dividends not in excess of \$0.025 per share of MCI Common Stock, in each case with usual record and payment dates for such dividends in accordance with MCI's past practice and (B) dividends by wholly owned Subsidiaries of MCI, (ii) split, combine or reclassify any of its capital stock or issue or authorize or propose the issuance of any other securities in respect of, in lieu of or in substitution for, shares of its capital stock, except for any such transaction by a wholly owned Subsidiary of MCI which remains a wholly owned Subsidiary after consummation of such transaction, or (iii) repurchase, redeem or otherwise acquire any shares of its capital stock or any securities convertible into or exercisable for any shares of its capital stock except for the purchase from time to time by MCI of MCI Common Stock in the ordinary course of business consistent with past practice in connection with the MCI Benefit Plans.

(c) Issuance of Securities. Except as set forth in Sections 5.8 and 5.9(b), MCI shall not and shall not permit any of its Subsidiaries to, issue, deliver or sell, or authorize or propose the issuance, delivery or sale of, any shares of its capital stock of any class, any MCI Voting Debt or any securities convertible into or exercisable for, or any rights, warrants or options to acquire, any such shares or MCI Voting Debt, or enter into any agreement with respect to any of the foregoing and shall not amend any equity-related awards issued pursuant to the MCI Benefit Plans, other than (i) the issuance of MCI Common Stock (and the associated Rights) upon the exercise of stock options issued in the ordinary course of business and consistent with past practice in accordance with the terms of the MCI Stock Option Plans as in effect on the date of this Agreement, (ii) issuances by a wholly owned Subsidiary of MCI of capital stock to such Subsidiary's parent and (iii) issuances of options, rights or other awards, and amendments to equity-related awards, in the ordinary course of business

and consistent with past practice pursuant to the MCI Stock Option Plans as in effect on the date of this Agreement.

(d) Governing Documents. Except to the extent required to comply with their respective obligations hereunder, required by law or required by the rules and regulations of NASDAQ, MCI and its Subsidiaries shall not amend or propose to amend their respective certificates of incorporation, by-laws or other governing documents.

(e) No Acquisitions. Other than acquisitions in existing or related lines of business of MCI the fair market value of the total consideration (including the value of indebtedness or other liability acquired or assumed) for which does not exceed \$50,000,000 individually or \$200,000,000 in the aggregate, MCI shall not, and shall not permit any of its Subsidiaries to, acquire or agree to acquire by merging or consolidating with, or by purchasing a substantial equity interest in or a substantial portion of the assets of, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof or otherwise acquire or agree to acquire any assets (other than the acquisition of assets used in the operations of the business of MCI and its Subsidiaries in the ordinary course); provided, however, that the foregoing shall not prohibit (x) internal reorganizations or consolidations involving existing Subsidiaries of MCI or (y) the creation of new Subsidiaries of MCI organized to conduct or continue activities otherwise permitted by this Agreement.

(f) No Dispositions. Other than (i) internal reorganizations or consolidations involving existing Subsidiaries of MCI, (ii) dispositions referred to in MCI SEC Reports filed prior to the date of this Agreement and (iii) as may be required by law in order to permit the consummation of the transactions contemplated hereby, MCI shall not, and shall not permit any Subsidiary of MCI to, sell, lease, encumber or otherwise dispose of, or agree to sell, lease, encumber or otherwise dispose of, any of its assets (including capital stock of Subsidiaries of MCI) which are material, individually or in the aggregate, to MCI.

(g) Indebtedness. MCI shall not, and shall not permit any of its Subsidiaries to, (i) incur or suffer to exist any indebtedness for borrowed money or guarantee any such indebtedness or issue or sell any debt securities or warrants or rights to acquire any debt securities of MCI or any of its Subsidiaries or guarantee any debt securities of other Persons other than indebtedness of MCI or any Subsidiary of MCI to MCI or any wholly owned Subsidiary of MCI and other than as permitted pursuant to Section 4.1(g) of the MCI Disclosure Schedule, (ii) make any loans, advances or capital contributions to, or investments in, any other Person, other than by MCI or a Subsidiary of MCI to or in MCI or any Subsidiary of MCI or (iii) pay, discharge or satisfy any claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise), other than in the case of clauses (ii) and (iii),

loans, advances, capital contributions, investments, payments, discharges or satisfactions incurred or committed to in the ordinary course of business consistent with past practice.

(h) **Benefit Plans.** Subject to Sections 5.8 and 5.9(b), MCI shall not, and shall not permit any of its Subsidiaries to, (i) increase the compensation payable or to become payable to any of its executive officers or employees or (ii) take any action with respect to the grant of any severance or termination pay, or stay, bonus or other incentive arrangement (other than pursuant to benefit plans and policies in effect on the date of this Agreement), except any such increases or grants made in the ordinary course of business and in accordance with past practice.

(i) **Other Actions.** MCI shall not, and shall not permit any of its Subsidiaries to, take any action that would, or that could reasonably be expected to, result in (i) any of the representations or warranties of MCI set forth in this Agreement that are qualified as to materiality becoming untrue, (ii) any of such representations or warranties that are not so qualified becoming untrue in any material respect or (iii) except as otherwise permitted by Section 5.7, any of the conditions to the Merger set forth in Article VI not being satisfied.

(j) **Accounting Methods: Income Tax Elections.** Except as disclosed in MCI SEC Reports filed prior to the date of this Agreement, or as required by a Governmental Entity, MCI shall not change its methods of accounting in effect at December 31, 1995, except as required by changes in US GAAP as concurred in by MCI's independent auditors. MCI shall not (i) change its fiscal year or (ii) make any material Tax election, other than in the ordinary course of business consistent with past practice, without consultation with BT.

(k) **Tax-Free Qualification.** MCI shall not, and shall not permit any of its Subsidiaries to, take any action that would prevent or impede (i) the Merger from qualifying as a tax-free reorganization under Section 368 of the Code or (ii) either party from obtaining the Required Consents.

(l) **Certain Agreements.** MCI shall not, and shall not permit any of its Subsidiaries to, enter into any agreement or arrangement that limits or otherwise restricts MCI or any of its Subsidiaries or any of their respective affiliates or any successor thereto or that could, after the Closing, limit or restrict BT or any of its affiliates or any successor thereto from engaging or competing in any line of business or in any geographic area.

4.2. **Covenants of BT.** During the period from the date of this Agreement and continuing until the Effective Time, BT agrees as to itself and its Subsidiaries that (except as expressly contemplated or permitted by this Agreement or as otherwise indicated on the BT Disclosure Schedule or to the extent that MCI shall otherwise consent in writing):

(a) Ordinary Course.

(i) BT and its Subsidiaries shall carry on their respective businesses in the usual, regular and ordinary course in all material respects, in substantially the same manner as heretofore conducted, and shall use all reasonable efforts to preserve intact their present lines of business, maintain their rights and franchises and preserve their relationships with customers, suppliers and others having business dealings with them to the end that their ongoing businesses shall not be impaired in any material respect at the Effective Time; provided, however, that no action by BT or its Subsidiaries with respect to matters specifically addressed by any other provision of this Section 4.2 shall be deemed a breach of this Section 4.2(a) unless such action would constitute a breach of one or more of such other provisions.

(ii) BT shall not, and shall not permit any of its Subsidiaries to, (A) enter into any new material line of business or (B) incur or commit to any capital expenditures other than capital expenditures incurred or committed to in the ordinary course of business consistent with past practice and which, together with all such expenditures incurred or committed to during any fiscal year, are not in excess of 115% of the aggregate amount of capital expenditures reflected in BT's capital expenditure budget for the applicable fiscal year.

(b) Dividends; Changes in Stock. BT shall not, and shall not permit any of its Subsidiaries to, and shall not propose to, (i) declare or pay any dividends on or make other distributions in respect of any of its share capital, except (A) BT may continue the declaration and payment of regular semiannual cash dividends in amounts consistent with past practice (including increases in such amounts in accordance with past practice), in each case with usual record and payment dates for such dividends in accordance with BT's past dividend practice, provided that, notwithstanding the exception in Section 4.2(b)(i)(A), BT shall in respect of the Second Dividend notify the LSE to mark the BT Ordinary Shares "ex-dividend" in the Stock Exchange Daily Official List on a date prior to the Effective Time, (B) dividends by wholly owned Subsidiaries of BT and (C) BT may declare and pay one or more special dividends in an aggregate amount not to exceed 35p per BT Ordinary Share (net), (ii) split, combine or reclassify any of its share capital or issue or authorize or propose the issuance of any other securities in respect of, in lieu of or in substitution for shares, except for any such transaction by a wholly owned Subsidiary of BT which remains a wholly owned Subsidiary after consummation of such transaction, or (iii) repurchase, redeem or otherwise acquire, or permit any Subsidiary of BT to purchase or otherwise acquire, any shares of its capital stock or any securities convertible into or exercisable for any shares of its capital stock except the purchase from time to time by BT of BT Ordinary Shares in the ordinary course of business consistent with past practice in

connection with share options, share incentive schemes or profit sharing schemes of BT.

(c) Issuance of Securities. BT shall not, and shall not permit any of its Subsidiaries to, issue, deliver or sell, or authorize or propose the issuance, delivery or sale of, any shares of any class, any BT Voting Debt or any securities convertible into or exercisable for, or any rights, warrants or options to acquire, any such shares or BT Voting Debt, or enter into any agreement with respect to any of the foregoing, other than (i) the issuance of BT Ordinary Shares upon the exercise of stock options, (ii) issuances by a wholly owned Subsidiary of BT of share capital to such Subsidiary's parent or to another wholly owned Subsidiary of BT and (iii) issuances of options, rights or other awards pursuant to the BT benefit plans as in effect from time to time.

(d) Governing Documents. Except to the extent required to comply with their respective obligations hereunder, required by law or required by the rules and regulations of the LSE or the NYSE, BT and its Subsidiaries shall not amend or propose to amend their respective memoranda and articles of association or other governing documents in any manner which would be adverse (i) to the interests of MCI or the stockholders of MCI, unless such amendment is equally adverse to the shareholders of BT or (ii) to MCI's ability to consummate the transactions contemplated hereby.

(e) No Acquisitions. Other than acquisitions in existing or related lines of business of BT the fair market value of the total consideration (including the value of indebtedness or other liability acquired or assumed) for which does not exceed £50,000,000 individually or £200,000,000 in the aggregate, BT shall not, and shall not permit any of its Subsidiaries to, acquire or agree to acquire by merging or consolidating with, or by purchasing a substantial equity interest in or a substantial portion of the assets of, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof or otherwise acquire or agree to acquire any assets (other than the acquisition of assets used in the operations of the business of BT and its Subsidiaries in the ordinary course); provided, however, that the foregoing shall not prohibit (x) internal reorganizations or consolidations involving existing Subsidiaries of BT or (y) the creation of new Subsidiaries of BT organized to conduct or continue activities otherwise permitted by this Agreement.

(f) No Dispositions. Other than (i) internal reorganizations or consolidations involving existing Subsidiaries of BT, (ii) dispositions referred to in BT SEC Reports filed prior to the date of this Agreement and (iii) as may be required by law in order to permit the consummation of the transactions contemplated hereby, BT shall not, and shall not permit any Subsidiary of BT to, sell, lease, encumber or otherwise dispose of, or agree to sell, lease, encumber or otherwise dispose of, any of

its assets (including capital stock of Subsidiaries of BT) which are material, individually or in the aggregate, to BT.

(g) **Indebtedness.** BT shall not, and shall not permit any of its Subsidiaries to, (i) incur or suffer to exist any indebtedness for borrowed money or guarantee any such indebtedness or issue or sell any debt securities or warrants or rights to acquire any debt securities of BT or any of its Subsidiaries or guarantee any debt securities of other Persons other than indebtedness of BT or any Subsidiary of BT to BT or any wholly owned Subsidiary of BT and other than as permitted pursuant to Section 4.2(g) of the BT Disclosure Schedule, (ii) make any loans, advances or capital contributions to, or investments in, any other Person, other than by BT or a Subsidiary of BT to or in BT or any Subsidiary of BT or (iii) pay, discharge or satisfy any claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise), other than in the case of clauses (ii) and (iii), loans, advances, capital contributions, investments, payments, discharges or satisfactions incurred or committed to in the ordinary course of business consistent with past practice.

(h) **Benefit Plans.** BT shall, to the extent permitted by law or regulations or any applicable confidentiality agreement, consult with MCI in advance with respect to any proposed material changes in BT's benefits plans, and shall consider in good faith MCI's views with respect to the foregoing.

(i) **Other Actions.** BT shall not, and shall not permit any of its Subsidiaries to, take any action that would, or that could reasonably be expected to, result in (i) any of the representations or warranties of BT set forth in this Agreement that are qualified as to materiality becoming untrue, (ii) any of such representations or warranties that are not so qualified becoming untrue in any material respect or (iii) except as otherwise permitted by Section 5.7, any of the conditions to the Merger set forth in Article VI not being satisfied.

(j) **Accounting Methods: Income Tax Elections.** Except as disclosed in BT SEC Reports filed prior to the date of this Agreement, or as required by a Governmental Entity, BT shall not change its accounting policies in effect at March 31, 1996, except as required or permitted by changes in UK GAAP as concurred in by BT's independent auditors. BT shall not (i) change its fiscal year (unless otherwise required by law) or (ii) make any material Tax elections, other than in the ordinary course of business consistent with past practice, without consultation with MCI.

(k) **Tax-Free Qualification.** BT shall not, and shall not permit any of its Subsidiaries to, take any action that would prevent or impede (i) the Merger from qualifying as a tax-free reorganization under Section 368 of the Code or (ii) either party from obtaining the Required Consents.

(l) Certain Agreements. BT shall not, and shall not permit any of its Subsidiaries to, enter into any agreement or arrangement that limits or otherwise restricts BT or any of its Subsidiaries or any successor thereto from engaging or competing in any line of business or in any geographic area which would have a Material Adverse Effect on BT.

(m) Certain Arrangements. BT shall take reasonable steps to implement and maintain arrangements under which holders of BT ADSs who satisfy the conditions for the application of such arrangements will receive a Tax Treaty Payment to which they are entitled directly from BT rather than from the Inland Revenue at the same time as and together with the payment of the associated cash dividend. For the purposes of this Section 4.2(m) the Tax Treaty Payment is that part of the tax credit attaching to the relevant dividend that would, but for these arrangements, be reclaimed by the holder of BT ADSs from the United Kingdom Inland Revenue under the income tax convention between the United States and the United Kingdom.

4.3. Advice of Changes: Government Filings. Each party shall (a) confer on a regular and frequent basis with the other, (b) report (to the extent permitted by law or regulation or any applicable confidentiality agreement) on operational matters and (c) promptly advise the other orally and in writing of (i) any representation or warranty made by it contained in this Agreement that is qualified as to materiality becoming untrue or inaccurate in any respect or any such representation or warranty that is not so qualified becoming untrue or inaccurate in any material respect, (ii) the failure by it (A) to comply with or satisfy in any respect any covenant, condition or agreement required to be complied with or satisfied by it under this Agreement that is qualified as to materiality or (B) to comply with or satisfy in any material respect any covenant, condition or agreement required to be complied with or satisfied by it under this Agreement that is not so qualified as to materiality or (iii) any change, event or circumstance that has had or would have a Material Adverse Effect on such party; provided, however, that no such notification shall affect the representations, warranties, covenants or agreements of the parties or the conditions to the obligations of the parties under this Agreement. MCI and BT shall file all reports required to be filed by each of them with the SEC (and all other Governmental Entities) and shall announce or publish all information required to be announced or published by the LSE (including pursuant to the Listing Rules of the LSE) between the date of this Agreement and the Effective Time and shall (to the extent permitted by law or regulation or any applicable confidentiality agreement) deliver to the other party copies of all such reports, announcements and publications promptly after the same are filed, announced or published. Subject to applicable laws relating to the exchange of information, each of MCI and BT shall have the right to review in advance, and to the extent practicable each will consult with the other, with respect to all the information relating to the other party and each of their respective Subsidiaries, which appears in any filings, announcements or publications made with, or written materials submitted to, any third party or any Governmental Entity in connection with the transactions contemplated by this Agreement. In exercising the foregoing right, each of the parties hereto agrees to act reasonably and as promptly as

practicable. Each party agrees that, to the extent practicable, it will consult with the other party with respect to the obtaining of all permits, consents, approvals and authorizations of all third parties and Governmental Entities necessary or advisable to consummate the transactions contemplated by this Agreement and each party will keep the other party apprised of the status of matters relating to completion of the transactions contemplated hereby.

4.4. Transition Planning. Sir Peter Bonfield, as Chief Executive Officer of BT, and Gerald H. Taylor, as President of MCI, jointly shall be responsible for coordinating all aspects of transition planning and implementation relating to the Merger and the other transactions contemplated hereby. If either such person ceases to be Chief Executive Officer or President, respectively, of his company for any reason, such person's successor shall assume his predecessor's responsibilities under this Section 4.4. During the period between the date of this Agreement and the Effective Time, Messrs. Bonfield and Taylor jointly shall (i) examine various alternatives regarding the manner in which to best organize and manage the businesses of BT and MCI after the Effective Time and (ii) coordinate policies and strategies with respect to regulatory authorities and bodies, in all cases subject to applicable law.

4.5. Control of Other Party's Business. Nothing contained in this Agreement shall give MCI, directly or indirectly, the right to control or direct BT's operations prior to the Effective Time. Nothing contained in this Agreement shall give BT, directly or indirectly, the right to control or direct MCI's operations prior to the Effective Time. Prior to the Effective Time, each of MCI and BT shall exercise, consistent with the terms and conditions of this Agreement, complete control and supervision over its respective operations.

ARTICLE V

ADDITIONAL AGREEMENTS

5.1. Preparation of Disclosure Documents: MCI Stockholder and BT Shareholder Meetings.

(a) As soon as practicable following the date of this Agreement, MCI and BT shall prepare the Proxy Statement/Prospectus. MCI shall, in cooperation with BT, file the Proxy Statement/Prospectus with the SEC as its preliminary Proxy Statement and BT shall, in cooperation with MCI, prepare and file with the SEC the Form F-4, in which the Proxy Statement/Prospectus will be included as BT's prospectus. If required under the Exchange Act, BT, Merger Sub and MCI shall together prepare and file a Transaction Statement on Schedule 13E-3 (the "Schedule 13E-3") under the Exchange Act at the time of the filing of the preliminary Proxy

Statement. At the time of the filing of any amended preliminary Proxy Statement and at the time of the filing of the Form F-4 and any amendment to the Form F-4, the parties shall file with the SEC an appropriate amendment to the Schedule 13E-3 which includes as an exhibit thereto and incorporates by reference such amended preliminary Proxy Statement or such Proxy Statement/Prospectus, or any amendment or supplement thereto. Each of MCI and BT shall use all reasonable efforts to have the Form F-4 declared effective under the Securities Act as promptly as practicable after such filing and to keep the Form F-4 effective as long as is necessary to consummate the Merger. BT shall also, as promptly as practicable, use all reasonable efforts to cause the ADR Depositary to file with the SEC a registration statement on Form F-6 (the "Form F-6") with respect to the BT ADRs to be issued in connection with the Merger under the Securities Act and use all reasonable efforts to have the Form F-6 declared effective as soon as practicable after such filing. MCI shall mail the Proxy Statement/Prospectus to MCI's stockholders as promptly as practicable after the Form F-4 is declared effective under the Securities Act and, if necessary, after the Proxy Statement/Prospectus shall have been so mailed, promptly circulate amended, supplemental or supplemented proxy material, and, if required in connection therewith, resolicit proxies, it being understood that MCI shall not be required to hold more than one meeting of stockholders. BT shall also take any action (other than qualifying to do business in any jurisdiction in which BT is not now so qualified) required to be taken under any applicable United States state securities laws in connection with the issuance of BT ADSs and BT ADRs in connection with the Merger and under the MCI Benefit Plans and MCI shall furnish all information concerning MCI and the holders of MCI Common Stock as may be reasonably requested in connection with any such action.

(b) Unless otherwise required pursuant to the applicable fiduciary duties of the Board of Directors of MCI to the stockholders of MCI (as determined in good faith by the Board of Directors of MCI based upon the advice of outside counsel) (i) MCI shall, as soon as practicable following the date of this Agreement and the effectiveness of the Form F-4, duly call, give notice of, convene and hold a meeting of its stockholders (the "MCI Stockholders Meeting") for the purpose of obtaining the Required MCI Votes with respect to this Agreement, (ii) the Board of Directors of MCI shall recommend adoption of this Agreement by the Stockholders of MCI and (iii) MCI shall take all lawful action to solicit such adoption.

(c) Unless otherwise required pursuant to the applicable fiduciary duties of the Board of Directors of BT to the shareholders of BT (as determined in good faith by the Board of Directors of BT based upon the advice of counsel), (i) BT shall, as soon as practicable following the date of this Agreement, convene and hold a meeting of the holders of BT Ordinary Shares (the "BT Shareholder Meeting") for the purpose of obtaining the Required BT Vote with respect to the Merger, the share repurchase authorization referred to in Section 5.16 and the other transactions contemplated hereby and (ii) the Board of Directors of BT shall recommend approval of the

Merger, the share repurchase authorization and the other transactions contemplated hereby.

(d) In connection with the BT Shareholder Meeting, to the extent required by applicable law, (i) BT shall, as soon as practicable after the date of this Agreement and in accordance with the listing rules of the LSE, prepare and submit to the LSE for approval the BT Disclosure Document, and shall use all reasonable efforts to have such document formally approved by the LSE and shall thereafter publish the BT Disclosure Document and mail the same to its shareholders in compliance with all legal requirements applicable to the BT Shareholder Meeting and the listing rules of the LSE and (ii) if necessary, after the BT Disclosure Document has been so posted, promptly circulate amended, supplemental or supplemented materials and, if required in connection therewith, resolicit votes, it being understood that BT shall not be required to hold more than one meeting of shareholders.

(e) Except as required by law, no amendment or supplement to the Proxy Statement/Prospectus or the Form F-4 or, if applicable, the Schedule 13E-3 shall be made by BT or MCI without the approval of the other party (which shall not be unreasonably withheld). Each party shall advise the other party, promptly after it receives notice thereof, of the time when the Form F-4 has become effective or any supplement or amendment has been filed, of the issuance of any stop order, of the suspension of the qualification of BT ADSs or BT ADRs issuable in connection with the Merger for offering or sale in any jurisdiction, or of any request by the SEC or the LSE for amendment of the Proxy Statement/Prospectus or the Form F-4 or comments thereon and responses thereto or requests by the SEC or the LSE for additional information.

5.2. BT Board of Directors; Officers; Headquarters.

(a) BT shall take all necessary action to reconstitute the Board of Directors of BT as of the Effective Time in accordance with Exhibit 5.2(a).

(b) BT shall take all necessary action to cause Sir Iain Vallance and Bert C. Roberts, Jr. to be appointed Co-Chairmen of BT as of the Effective Time and to amend the Articles of Association of BT to provide for Co-Chairmen.

(c) BT will have, after the Closing, United Kingdom and United States headquarters.

(d) BT shall take all reasonable steps to ensure that, after the Effective Time, five out of the first ten meetings of the Board of Directors of BT each year will be held in the United Kingdom with Sir Iain Vallance (or his successor) acting as the Chairman and presiding at such five meetings and the remaining five meetings will be held in the United States with Bert C. Roberts, Jr. (or his successor) acting as the

Chairman and presiding at such five meetings, and any additional meetings of the Board of Directors of BT each year will be held in the United Kingdom with Sir Iain Vallance (or his successor) acting as the Chairman and presiding at such additional meetings.

(e) BT shall take reasonable steps after the Effective Time to enable United States holders of BT ADSs to attend and, at the invitation of the Chairman, speak (but not vote) by means of video conference, conference telephone or other similar communications equipment, at any shareholder meeting of BT held in the United Kingdom; provided, however, that (i) in no event will the failure to so provide such United States holders with such opportunity or any mechanical failure of the video conference, conference telephone or other similar communication equipment during the course of a shareholder meeting affect the validity of such shareholder meeting or any action taken pursuant thereto and (ii) under no circumstances will the provision of such opportunity for such attendance by any United States holder of BT ADSs (in his capacity as a holder of BT ADSs or in any other capacity) be taken to constitute an additional place for the holding of any General Meeting with the meaning of Article 62(c)(ii) of BT's Articles of Association.

5.3. Access to Information. Upon reasonable notice, MCI and BT shall each (and shall cause each of their respective Subsidiaries to) afford to the officers, employees, accountants, counsel, financial advisors and other representatives of the other reasonable access during normal business hours, during the period prior to the Effective Time, to all its properties, books, contracts, commitments and records and, during such period, each of MCI and BT shall (and shall cause each of their respective Subsidiaries to) furnish promptly to the other (a) a copy of each report, schedule, registration statement and other document filed, published, announced or received by it during such period pursuant to the requirements of Federal or state securities laws, the LSE or the FSA, as applicable (other than reports or documents which such party is not permitted to disclose under applicable law) and (b) consistent with its legal obligations, all other information concerning its business, properties and personnel as such other party may reasonably request; provided, however, that BT or MCI may restrict the foregoing access to the extent that (i) a Governmental Entity requires such party or any of its Subsidiaries to restrict access to any properties or information reasonably related to any such contract on the basis of applicable laws and regulations with respect to national security matters or (ii) any law, treaty, rule or regulation of any Governmental Entity applicable to such party requires such party or its Subsidiaries to restrict access to any properties or information. The parties will hold any such information which is non-public in confidence to the extent required by, and in accordance with, the provisions of the letter dated October 4, 1996 between MCI and BT (the "Confidentiality Agreement"). Any investigation by either BT or MCI shall not affect the representations and warranties of the other.

5.4. Approvals and Consents; Cooperation. (a) MCI and BT shall cooperate with each other and use (and shall cause their respective Subsidiaries to use) all

reasonable best efforts to take or cause to be taken all actions, and do or cause to be done all things, necessary, proper or advisable on their part under this Agreement and applicable laws to consummate and make effective the Merger and the other transactions contemplated by this Agreement as soon as practicable, including (i) preparing and filing as promptly as practicable all documentation to effect all necessary applications, notices, petitions, filings, tax ruling requests and other documents and to obtain as promptly as practicable all consents, waivers, licenses, orders, registrations, approvals, permits, tax rulings and authorizations necessary or advisable to be obtained from any third party and/or any Governmental Entity in order to consummate the Merger or any of the other transactions contemplated by this Agreement and (ii) taking all reasonable steps as may be necessary to obtain all such consents, waivers, licenses, registrations, permits, authorizations, tax rulings, orders and approvals. Without limiting the generality of the foregoing, MCI and BT agree to make all necessary filings in connection with the Required Regulatory Approvals as promptly as practicable after the date of this Agreement, and to use all reasonable best efforts to furnish or cause to be furnished, as promptly as practicable, all information and documents requested with respect to such Required Regulatory Approvals and shall otherwise cooperate with the applicable Governmental Entity in order to obtain any Required Regulatory Approvals in as expeditious a manner as possible. Each of MCI and BT shall use all reasonable best efforts to resolve such objections, if any, as any Governmental Entity may assert with respect to this Agreement and the transactions contemplated hereby in connection with the Required Regulatory Approvals. In the event that a suit is instituted by a Person or Governmental Entity challenging this Agreement and the transactions contemplated hereby as violative of applicable antitrust or competition laws or the Communications Act, each of MCI and BT shall use its reasonable best efforts to resist or resolve such suit. Notwithstanding anything to the contrary in this Section 5.4(a), (i) neither MCI nor BT shall be required to agree to the imposition of a Combined Company Burdensome Condition, (ii) MCI shall not agree to the imposition of an MCI Burdensome Condition without BT's prior written consent and (iii) BT shall not agree to the imposition of a BT Burdensome Condition without MCI's prior written consent.

(b) MCI and BT each shall, upon request by the other, furnish the other with all information concerning itself, its Subsidiaries, directors, officers and stockholders and such other matters as may reasonably be necessary or advisable in connection with the BT Disclosure Document, the Form F-4, the Form F-6 and the Proxy Statement/Prospectus and, if applicable, the Schedule 13E-3 (collectively, the "Disclosure Documents") or any other statement, filing, tax ruling request, notice or application made by or on behalf of MCI, BT or any of their respective Subsidiaries to any third party and/or any Governmental Entity in connection with the Merger or the other transactions contemplated by this Agreement.

5.5. Affiliates' and Auditors' Letters. (a) Prior to the Closing Date, MCI shall deliver to BT a letter identifying all Persons who are, immediately prior to the Effective Time, Rule 145 Affiliates of MCI. MCI shall use all reasonable efforts to cause each such

Person to deliver to BT on or prior to the Closing Date a written agreement in the form customarily obtained from such affiliates for purposes of Rule 145.

(b) MCI and BT each shall use all reasonable efforts to cause to be delivered to the other party and such other party's directors a letter of its independent auditors, dated the date on which the Form F-4 shall become effective, and addressed to the other party and such other party's directors, in form and substance customary for "comfort" letters delivered by independent public accountants in connection with registration statements similar to the Form F-4.

5.6. Stock Exchange Listings. (a) BT shall, as promptly as practicable, prepare and submit to the LSE a listing application covering the BT Ordinary Shares to be represented by the BT ADSs to be issued in the Merger, and shall use all reasonable efforts to obtain, prior to the Effective Time, agreement by the LSE for the admission of such BT Ordinary Shares to the Official List of the London Stock Exchange, and MCI shall cooperate with BT with respect to such listing.

(b) BT shall, if necessary, promptly prepare and submit to the NYSE or NASDAQ (as shall be agreed between the parties prior to the Closing) a listing application covering the BT ADSs to be issued in the Merger, and shall use all reasonable efforts to obtain, prior to the Effective Time, approval for the listing of such BT ADSs, subject to official notice of issuance, and MCI shall cooperate with BT with respect to such listing.

5.7. Acquisition Proposals. (a) MCI and BT each agrees that neither it nor any of its Subsidiaries nor any of the officers and directors of it or its Subsidiaries shall, and that it shall direct and use its best efforts to cause its and its Subsidiaries' employees, agents and representatives (including any investment banker, attorney or accountant retained by it or any of its Subsidiaries) not to, directly or indirectly, initiate, solicit, encourage or otherwise facilitate (including by way of furnishing information) any inquiries or the making of any proposal, or offer with respect to a merger, reorganization, share exchange, consolidation, business combination, recapitalization, liquidation, dissolution or similar transaction involving, or any purchase or sale of all or any significant portion of the assets or 10% or more of the equity securities of, it or any of its Subsidiaries that, in any such case, could reasonably be expected to interfere with the completion of the Merger or the other transactions contemplated by this Agreement (any such proposal or offer being hereinafter referred to as an "Acquisition Proposal"). MCI and BT each further agrees that neither it nor any of its Subsidiaries nor any of the officers and directors of it or its Subsidiaries shall, and that it shall direct and use its best efforts to cause its and its Subsidiaries' employees, agents and representatives (including any investment banker, attorney or accountant retained by it or any of its Subsidiaries) not to, directly or indirectly, have any discussion with or provide any confidential information or data to any Person relating to an Acquisition Proposal or engage in any negotiations concerning an Acquisition Proposal, or otherwise facilitate any effort or attempt to make or implement an Acquisition Proposal or accept an Acquisition Proposal; provided, however, that nothing contained in this Agreement shall

prevent either MCI or BT or its Board of Directors from (A) complying with Rule 14e-2 promulgated under the Exchange Act or complying with the City Code, as applicable, with regard to an Acquisition Proposal; (B) engaging in any discussions or negotiations with, or providing any information to, any Person in response to an unsolicited bona fide written Acquisition Proposal by any such Person; or (C) recommending such an unsolicited bona fide written Acquisition Proposal to the stockholders of MCI or BT, as the case may be, if and only to the extent that, in any such case as is referred to in clause (B) or (C), (i) the Board of Directors of MCI or BT, as the case may be, concludes in good faith (after consultation with its financial advisors) that such Acquisition Proposal is reasonably capable of being completed, taking into account all legal, financial, regulatory and other aspects of the proposal and the Person making the proposal, and would, if consummated, result in a transaction more favorable to MCI's or BT's stockholders, as the case may be, from a financial and strategic point of view than the transaction contemplated by this Agreement (any such more favorable Acquisition Proposal being referred to in this Agreement as a "Superior Proposal"), (ii) the Board of Directors of MCI or BT, as the case may be, determines in good faith after consultation with legal counsel that such action is necessary for its Board of Directors to act in a manner consistent with its fiduciary duties under applicable law, (iii) prior to providing any information or data to any Person in connection with an Acquisition Proposal by any such Person, such Board of Directors receives from such Person an executed confidentiality agreement on terms substantially similar to those contained in the confidentiality agreement previously entered into between BT and MCI in connection with their consideration of the Merger and (iv) prior to providing any information or data to any Person or entering into discussions or negotiations with any Person, the Board of Directors of MCI or BT, as the case may be, notifies the other party, immediately of such inquiries, proposals or offers received by, any such information requested from, or any such discussions or negotiations sought to be initiated or continued with, any of its representatives indicating, in connection with such notice, the name of such Person and the terms and conditions of any proposals or offers. MCI and BT each agrees that it will immediately cease and cause to be terminated any existing activities, discussions or negotiations with any parties conducted heretofore with respect to any Acquisition Proposal. MCI and BT each agrees that it will take the necessary steps to promptly inform the individuals or entities referred to in the first sentence hereof of the obligations undertaken in this Section 5.7. MCI and BT each agrees that it shall keep the other informed, on a current basis, of the status and terms of any such proposals or offers and the status of any such discussions or negotiations.

(b) Except in connection with any potential change in the terms of this Agreement in response to any Acquisition Proposal as contemplated by Section 5.7(a) and Section 7.1(f), neither MCI nor BT will take any initiatives involving the other party that would otherwise require such other party to make a public announcement, make any public comment or proposal with respect to any Acquisition Proposal with respect to such other party, become a member of a "group" within the meaning of Section 13(d) of the Exchange Act, enter into any discussions, negotiations, arrangements or understanding with any third party with respect to any of the foregoing or otherwise seek to control or influence the other party, in all cases except as expressly contemplated by this Agreement or, in the case of BT,

the Investment Agreement. MCI and BT agree that each will notify the other immediately if any inquiries or proposals are received by, any information is requested from, or any negotiations or discussions are sought to be initiated or continued with, either MCI or BT or any of their respective affiliates or representatives regarding any Acquisition Proposal with respect to such other party.

(c) BT agrees that, while this Agreement remains in effect, neither it nor any of its Subsidiaries nor any of the officers and directors of it or its Subsidiaries shall, and that it shall direct and use its best efforts to cause its and its Subsidiaries' employees, agents and representatives (including any investment banker, attorney or accountant retained by it or any of its Subsidiaries) not to, (i) directly or indirectly, initiate, solicit, encourage or otherwise facilitate any inquiries or the making of any proposal or offer with respect to the purchase or sale of any shares of MCI Class A Common Stock owned by BT or any of its Subsidiaries or (ii) sell, transfer, pledge or assign, or grant any proxy with respect to, any shares of MCI Class A Common Stock owned by BT or any of its Subsidiaries.

(d) BT agrees that, while this Agreement remains in effect, at any meeting of the holders of shares of MCI Common Stock at which BT shall have the right to vote its shares of MCI Class A Common Stock or at any meeting of the holders of shares of MCI Class A Common Stock, however called, or in connection with any written consent of the holders of shares of MCI Common Stock or MCI Class A Common Stock, BT shall vote (or cause to be voted) the shares of MCI Class A Common Stock held by it, to the extent voting rights exist with respect to the proposals to be acted upon, in favor of adoption of this Agreement and approval of the other transactions contemplated by this Agreement.

5.8. Stock Options and Other Stock Plans. (a) During the period from the date of this Agreement to the Effective Time, MCI may grant to certain of its employees, pursuant to the MCI 1989 Stock Option Plan, Senior Retention ISUs, 1997 ISUs and 1997 Options (as each such term is defined in Annex A hereto) substantially on the terms and conditions described in Annexes A and B hereto. MCI and BT will discuss any equity-related award to be issued by MCI during the period from the date of this Agreement to the Effective Time that affects employees at the level of vice president and above and is significant in the context of such employee's compensation.

(b) On or prior to the Effective Time, MCI shall take all action necessary to cause each option to purchase shares of MCI Common Stock (each, an "MCI Stock Option") that was granted pursuant to the MCI Stock Option Plans prior to the date of this Agreement and which remains outstanding immediately prior to the Effective Time to be immediately vested and fully exercisable immediately prior to the Effective Time (it being understood that MCI and BT will develop a mechanism to permit any such accelerated option to be exercised immediately prior to the Effective Time so as to enable the holder to receive the Merger Consideration with respect to the underlying option shares). Each MCI Stock Option (including each 1997 Option) which is outstanding at the Effective Time shall be converted, at the Effective Time, into an option to acquire, on the same terms and conditions